MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

Trimester 3, 2018/ 2019

BAM 7014 – ACCOUNTING FOR MANAGERS

(MBA FULL-TIME)

24 May 2019
9.00 am – 12.00 pm
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SIX (6)** pages (including the cover page) with **FOUR (4)** questions.

2. Answer **ALL** questions. The marks distributions are given in parentheses.

3. Write all your answers in the **Answer Booklet** provided.

QUESTION 1 (25 marks)

PART A

Joriba Kanno Bhd is engaged in the manufacturing of consumer goods since 1998. The company's products are well known, however, it faces tough competition from several brands. The company operates on a calendar year basis. The company begins the annual budgeting process in late September when the Chief Finance Officer (CFO) sets targets for the total Ringgit sales and net income before taxes for the next year.

The CFO communicates the sales target first to the marketing department. The marketing manager prepares a sales budget by product line in both units and Ringgit. From this budget, sales quotas by product line in units and Ringgits are established for each of the company's sales districts. The marketing manager also estimates the cost of the marketing activities required to support the target sales volume and prepares a tentative marketing expense budget.

The executive vice president uses the sales and profit targets, the sales budget by product line, and the tentative market expense budget to determine the Ringgit amounts that can be devoted to manufacturing and corporate office expense. The executive vice president prepares the budget for corporate expenses. She then forwards to the production department, the product line sales budget in units and the total Ringgit amount that can be devoted to manufacturing.

The product manager meets with the factory managers to develop a manufacturing plan that will produce the required units when needed within the costs constraints set by executive vice president. The budgeting process usually comes to a halt at this point because the production department does not consider the financial resources allocated to be adequate.

When this standstill occurs, the vice president finance, the executive vice president, the marketing manager, and the production manager meets together to determine the final budgets for each of the areas. This normally results in a modest increase in the total amount available for manufacturing costs and cuts in marketing expenses and corporate office expense budgets. The total sales and net income figures proposed by the CEO are seldom changed. Although the participants are seldom pleased with the compromise, these budget are final. Each executive then develops a new detailed budget for the operations in his or her area.

None of the areas has achieved its budget in recent years. Sales often run below the target. When budgeted sales are not achieved, each area is expected to cut costs so that the CEO's profit target can be met. However, the profit target is seldom met because costs are not cut enough. In fact, costs often run above the original budget in all functional areas (marketing, production, and corporate office).

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The CEO is disturbed that the company has not been able to meet the sales and profit targets. He hired a consultant with considerable experience with companies in the consumer industry. The consultant reviewed the budgets for the past four years. He concluded that the product line sales budgets were reasonable and that the cost and expense budgets were adequate for the budgeted sales and production levels.

Required:

a. Discuss how the budgeting process employed by the company contributes to the failure to achieve the CEO's sales and profit targets.

(10 marks)

b. Suggest how this company's budgeting process could be revised to correct the problems.

(7 marks)

PART B

Tan Chin International Company is in manufacturing operations for the last sixteen years. It produces eight chemical based products, which are used by consumer goods companies as raw materials. Tan Chin International Company uses a standard costing system and it is planning to produce 2,500 units of product in 2019. Each unit requires 3 pounds of materials at RM6 per pound and a half hour of labour at RM16 per hour. The overhead rate is 75% of direct labour.

Required:

a. Compute the budgeted amounts for 2019 for direct materials to be used, direct labor, and applied overhead.

(4 marks)

b. Compute the standard cost of one unit of product.

(4 marks)

(Total marks 25)

QUESTION 2 (25 marks)

PART A

Nik Sahil Paham Bhd was established in 2001 as a manufacturing company to produce consumer goods. It has been a fast growing company and it has launched several products in the market. Nik Sahil Paham Bhd has followed a decentralized structure for its operations and it has two divisions namely ABC and XYZ. From time to time in the executive meetings and especially during training programmes, Abhay Krishnan, the CEO of the company has been emphasizing on the continuous improvements in performance and brand image of the company. The following are the data for 2018 for both the divisions. You have been recently appointed as a manager of the company. You

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have been asked to evaluate the performance of the two divisions based on various criteria.

RM in '000'

Items	Division ABC	Division XYZ
Sales	300,000	400,000
Contribution margin	125,000	160,000
Operating income	30,000	80,000
Average operating assets	200,000	320,000
Cost of capital	15%	15%

Nik Sahil Paham Bhd has a target Return on Investment (ROI) of 20%.

Required:

1.Based on the above information, calculate the following amounts for each division.

i. Turnover ratio (3 marks)
ii. Margin ratio (3 marks)
iii. ROI (3 marks)
iv. Residual income (4 marks)
v. Economic value added (EVA) (4 marks)

2. Critically evaluate the performance of both the divisions. (2 marks)

PART B

Explain any three situations when an auditor may issue unqualified report explanatory paragraph or modified wording.

(6 marks)
(Total marks 25)

QUESTION 3 (25 marks)

Asia Pacific Bhd manufactures a single product with the following unit costs for 20,000 units:

Direct materials	RM240
Direct labour	120
Factory overhead (40% variable)	360
Selling expense (60% variable)	120
Administrative expenses (20% variable)	60
Total per unit	RM900

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Recently, a company approached Asia Pacific Bhd about buying 4,000 units for RM900. Currently, the models are sold to dealers for RM1,650. Asia Pacific Bhd 's capacity is sufficient to produce the extra 4,000 units. No additional selling expenses would be incurred on the special order.

Required:

a. What is the profit earned by Asia Pacific Bhd on the original 20,000 units?
(4 marks)

b. Should Asia Pacific Bhd accept the special order if its goal is to maximize short-run profits? How much will income be affected?
(9 marks)

c. Determine the minimum price Asia Pacific would want to receive in order to increase profits by RM30,000 on the special order.
(4 marks)

d. When making a special-order decision, what qualitative aspects of the decision should Asia Pacific Bhd consider?
(8 marks)

(Total marks 25)

QUESTION 4 (25 marks)

PART A

Activity- Based Costing (ABC) has been in use in Malaysia for last one decade. Selangor Electronic Products Bhd has also applied ABC from 2017. The objective was to find out accurate cost of products and determine competitive product pricing. In the implementation of ABC, the company was assisted by one of the Big 4 audit firms in Malaysia. The company produces two main electronic products: high quality digital camera and display devices. These products have been in high demands both locally and in the oversea markets.

Mr. Jimmy Kon, who is the production manager, reported that during April 2019, 384,000 digital cameras and 288,000 display devices were produced. The company had incurred a total of RM1,632,000 overhead costs in this production. The accounting department in consultation with production department also reported the following additional information on overhead cost:

Activity	Cost Driver	Total Cost in RM
Machine setups	Number of setups	576,000
Quality inspections	Number of inspections	720,000
Materials handling	Number of requisitions	336,000

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For each product, the cost driver was as follows:

Cost Driver	Digital Camera	Display Devices	Total
No. of setups	576	624	1,200
No. of inspections	4,320	7,680	12,000
No. of requisitions	1,200	720	1,920

Required:

a. For each activity mentioned in the problem, compute the overhead rate.

(6 marks)

b. Assign the manufacturing overhead costs for January, 2019 to the two products namely, digital camera and display device, using Activity-Based Costing and then determine the overhead cost per unit.

(9 marks)

c. Explain three situations, in which a manufacturing company should apply Activity-Based Costing?

(6 marks)

PART B

Differentiate between prime costs and conversion costs with examples.

(4 marks)

(Total marks 25)

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